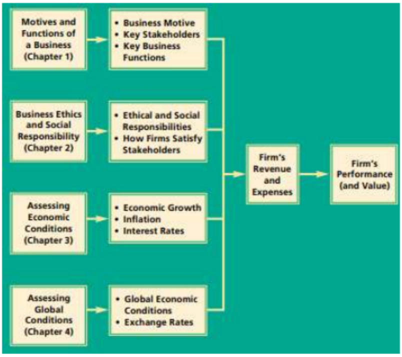
PART I — Business Environment



A. Chapter 1

1. The Goal of Business

Businesses are established to serve the needs of consumers by owners who seek to make profits. By providing a product that is desired by customers, they may be able to make profits for their business.

Where the Profits Come From

A business receives revenue when it sells its products or services. It incurs expenses from paying its employees and when it purchases machinery or facilities. The difference between the revenue and the expenses is the profit ffor earnings) generated by the business.

Formula:

Revenue	$5,000
− Expenses	− $1.000
= Profit	= $4,000

The profits that you earn from your new business are dependent on three conditions. First, there needs to be a demand for the service that you offer. Second, you need to attract customers, meaning that they choose you instead of your competitors ffother tutors). Third, to earn high profits, you need to keep your expenses low.

Profit as a Motive to Understand Business

If you develop a good understanding of business, you may be more capable of creating and running a successful business, and you will be directly rewarded with higher profits.

First, if you develop strong business skills. Second, you are likely to find your job more enjoyable. Third, you should be able to perform better, which could result in a more satisfying career path. Fourth, if you ever invest in businesses, you may be better able to identify the types of businesses that are likely to perform well.

How the Profit Motive Is Influenced by the Government

Without the prospect of earning a profit, most people could not afford to create a business and had to find some alternative form of work to earn an income. Furthermore, without a profit motive, businesses had no incentive to produce products that satisfy consumers' needs.

Nonprofit Businesses

A nonprofit organization is an organization that serves a specific cause and is not intended to make profits. When its revenue exceeds its expenses in a particular period, the profits are reinvested in the organization.

Common examples of nonprofit organizations include some hospitals, schools, charitable organizations, and churches.

2. Resources Used to Produced Products or Services
   To produce a product or service, firms rely on the following factors of production:

Natural Resources

Natural resources include any resources that can be used in their natural form. The most obvious natural resource that is commonly used by businesses to produce products or services is land.

Human Resources

Human resources are the people who can perform work for a business. They may contribute to production by using their physical abilities or their mental abilities.

Capital

Capital includes machinery, equipment, tools, and physical facilities. Technology has enabled businesses to use their capital more effectively.

Entrepreneurship

Entrepreneurship is the creation of business ideas and the willingness to take risk; the act of creating, organizing, and managing a business. Entrepreneurs are people who organize, manage, and assume the risk of starting a business.

3. Key Stakeholders in a Business

Stakeholders are people who have an interest in a business; the business's owners, creditors, employees, suppliers, and customers.

Owners

Every business begins as a result of ideas about a product or service by one or more entrepreneurs. As explained earlier, entrepreneurship is the act of creating, organizing, and managing a business. The stock received by investors is a certificate representing ownership of the specific business. The investors who purchase stock are called stockholders ffor shareholders) of those firms.

Creditors

Creditors are financial institutions or individuals who provide loans. Firms that borrow from creditors pay interest on their loans. The amount borrowed represents the debt of the firm, which must be paid back to the creditors along with interest payments over time.

Employees

Firms hire employees to conduct their business operations. Those employees who are responsible for managing job assignments of other employees and making key business decisions are called managers.

Suppliers

Firms cannot complete the production process if they cannot obtain the materials. Therefore, their performance is partially dependent on the ability of their suppliers to deliver the materials on schedule.

Customers

Firms cannot survive without customers. To attract customers, a firm must provide a desired product or service at a reasonable price.

Summary of Key Stakeholders

Firms rely on entrepreneurs ffowners) to create business ideas and possibly to provide some financial support. They rely on other owners and creditors to provide additional financial support. They rely on employees ffincluding managers) to produce and sell their products or services.

They rely on suppliers to provide the materials needed for production. They rely on customers to purchase the products or services they produce.

4. The Business Environment

The success of a business is generally dependent on the business environment. Even after a business is created, its entrepreneurs and managers must continually monitor the environment so that they can anticipate how the demand for its products or its cost of producing products may change.

Social Environment

The social environment, which includes demographics and consumer preferences, represents the social tendencies to which a business is exposed. The demographics, or characteristics of the population, change over time.

Industry Environment

The industry environment represents the conditions within the firm’s industry to which the firm is exposed. The conditions in each industry vary according to the demand and the competition.

Economic Environment

Economic conditions have a strong impact on the performance of each business. When the economy is strong, employment is high, and compensation paid to employees is also high.

Global Environment

The global environment may affect all firms directly or indirectly. Some firms rely on foreign countries for some of their supplies or sell their products in various countries.

5. Key Types of Business Decision

Management is the means by which employees and other resources ffsuch as machinery) are used by the firm. **Marketing** is the means by which products ffor services) are developed, priced, distributed, and promoted to customers. **Finance** is the means by which firms obtain and use funds for their business operations.

Accounting is the summary and analysis of the firm’s financial condition and is used to make various business decisions. **Information systems** include information technology, people, and procedures that provide appropriate information so that the firm's employees can make business decisions.